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ABSTRACT

Focusing on small, independent businesses, this primer answers questions relating to starting and operating a new firm and how local development organizations can help in the process. The general pattern of the company forming process (displacement, disposition to act, credibility, and availability of resources) is discussed. Success factors for retailing, wholesaling, manufacturing, and service firms are outlined. Aspects of estimating relevant market areas for various types of firms are presented, supported with a table showing national averages of population per store for 41 categories of retail businesses. Advantages/disadvantages of sole proprietorship, partnerships, and corporations are detailed. Purposes and methods for establishing a local industrial organization to assist potential and existing small businesses are examined. Sources of continuing education and special programs for small businesses in Alabama are listed. A financial worksheet and extensive checklist which permit potential entrepreneurs to analyze themselves, finances, partners, customers, buildings, merchandise, inventories, legal considerations, advertising, pricing, and employees are appended. (NEC)

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Developing Small Firms in Local Communities

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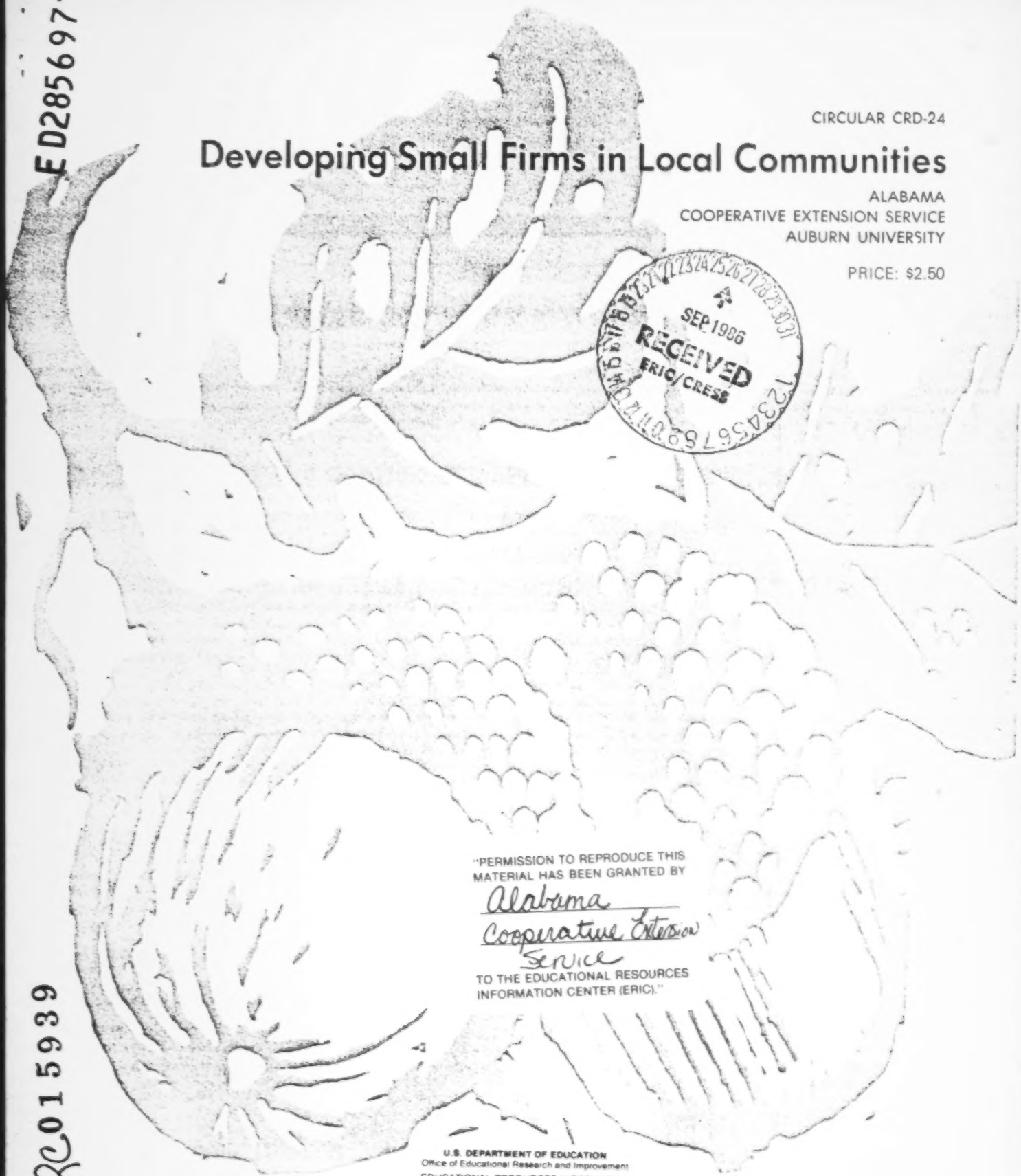

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DEVELOPING SMALL FIRMS IN LOCAL COMMUNITIES

DR. HARRY B. STRAWN
Economist—Resource Development

Business opportunities exist in rural areas and small towns, as well as in large cities. The problem is how to take advantage of the opportunities present in most communities. This is where personal characteristics, knowledge of the local area and business community, and experience with selling the product or service being considered will come into play. For small towns and communities to effectively compete with large cities for industry, commerce, and jobs, they must sell their strong points and correct or minimize their weaknesses.

Local economic development organizations often emphasize competing for branch plants of regional or national manufacturers or retail stores from large chains to the detriment of local businessmen. Local independent businessmen and people who desire to go into business may be neglected. This may prevent many local communities from achieving their potential economic growth and developing balanced economies. An economic recession may teach some hard lessons to communities with only one or two major employers or who have concentrated their development programs in firms from one or two industries. Diversification spreads risk and provides insurance against the effects of a particular recession being unusually severe in certain industries and causing severe local problems.

A balanced economy includes firms in agriculture, manufacturing, retailing and service industries. The existence of both large and small firms also contributes to this economic balance. Gross neglect of any of these sectors can leave the local economy more vulnerable to economic shifts at the regional or national levels.

This publication concentrates on the small, independent business, answering questions which relate to starting and operating a small new firm and how local development organizations can help in the process. Working with small firms may pay big dividends because small firms often grow into large firms. As they grow, they often maintain close ties with the area in which they started. In other words, independent businessmen tend to remember their roots. Branch plant or store executives may consider a particular plant assignment to be only a short stop in the "fast track" lane to success and may let short run career interests override long run considerations in community relations to the detriment of the plant and the community.

An active and visible local development organization should be a focal point for the development of small firms as well as large ones. The friendly atmosphere of most rural communities and small towns should make it relatively easy for the development group to fulfill its mission with respect to small firms and persons interested in going into business. Local development organizations can play a valuable role in the development of their respective areas by paying heed to the needs of small firms in addition to competing for branch plants of national firms.

Establishing and maintaining a viable local industrial development organization is a necessary condition for long term success in local industrial and commercial development. Such an organization provides a focal point around which local efforts can cluster. This publication assumes that such an organization currently exists in the community. If it does not currently exist, establishing an appropriate local development organization should be an immediate objective of local people interested in economic development. For more information on establishing a local industrial development organization, contact your county Extension agent.

Several other organizations and agencies can help local communities with economic development problems. No attempt will be made here to list all of these sources of help. A primary source of help is the Alabama Development Office. This agency is the industrial development arm of state government and is in a unique position to provide aid. Likewise, the 12 regional planning and development commission offices may provide valuable help.

Doing Business in Small Towns and Rural Areas

CIRCUMSTANCES differ widely. Each prospective firm faces a unique situation. However, certain generalizations can be made for firms operating in small towns and rural areas:

1. Rural and small town locations tend to be sparsely populated and have low customer traffic, which may imply a need for a business with a relatively low breakeven point.

- Control of costs might offer more potential than large expenditures to expand demand.
- Purchases from support firms such as repair services, manufacturing and office supplies, etc., might be more difficult and expensive for small town businessmen.

2. In some types of business, unique products and/or superior service might be more important than an extremely low breakeven point.

- Specialty restaurants such as fish camps, for example, in some instances regularly draw customers from 30 miles or more. Absence of competition is an important factor in this case.
- Broad-based advertising also helps to draw people in from a large market area.
- Certain types of discount houses such as piece goods stores may combine the relatively low rent of a small town with good advertising to show a profit.

3. If special skills are not required, labor may be more readily available and at lower cost than in urban locations.

- In some situations part-time labor may be the logical route.
- Job-sharing by mothers of young children or other part-time workers might prove beneficial to the firm and its employees.

4. Existing buildings at good locations may not exist in many local communities.

5. The alternative of buying a going business may not exist in a small town or the choices may be limited.

6. If the proposed business involves moving heavy or bulky materials or products, existing roads and bridges may not be adequate.

7. Public utilities (water, electricity, natural gas, telephone, police and fire protection, etc.) may not be adequate.

A Primer for Small Business Development

The conditions for success of a small business are quite similar to those for a large firm in the same industry. Only the scale is different. For example, the chain of Belk Brothers Department Stores started with a single store in Monroe, North Carolina, a very small town at the time. Gino's Foods started by making pizza in a converted garage for sale to local stores in a small midwestern town. Colonel Sanders started the firm which became nationally known as "Kentucky Fried Chicken" in a small Kentucky town at a time in his life when most people would have been counting down to retirement. Many other examples could be cited.

Small businessmen generally lack financial resources and are often deficient in managerial skills to put their ideas into practice. Likewise, they may not be aware of aid that is available at the national, state, or local levels. The local development organization can make a valuable contribution through helping small firms at a time when they need help most. The organization should have a reservoir of local business experience to help the small firm get started correctly with respect to organization, location and management. Members of the organization should also be aware of why and how small firms often come into existence, and why they succeed or fail. This knowledge will provide useful background information and help the organization to "ask the right questions" when attempting to help a prospect.

STARTING A NEW FIRM—THE PATTERN

In order to effectively work with new firms, it is generally good to understand something about people who want to go into business for themselves. One author has suggested that there is a general pattern to the company-forming process. This pattern consists of four parts.[1]

1. Displacement. Most company formations are associated with some kind of personal displacement or dislodgment from a comfortable or satisfactory situation of the people involved. Examples include job termination or being bypassed for a highly-desired promotion.

2. Disposition to Act. Highly self-reliant people typically desire autonomy and independence that starting a new business would provide.

3. Credibility. This involves the person being able to see himself successfully starting and operating a new business.

4. Availability of Resources. The prospective entrepreneur must either currently have these labor, equipment, facilities, etc. resources, or have access to sufficient money or collateral to purchase them. Studies have shown that typically the entrepreneur, his family, friends, socially related individuals, and *personal* cash loans account for over 90 percent of initial financing of new ventures in the United States.

Most people at one time or another entertain thoughts of becoming independent business owners or managers. However, relatively few make the plunge and start a new business enterprise. The rewards can be great; and with adequate preparation, the risks can be held to acceptable levels. Helping with the preparation and management of certain risks is where the small business development subcommittee can play an important role.

SUCCESS FACTORS FOR DIFFERENT TYPES OF BUSINESS

The profitability of a new firm will depend on the relationship between demand for the product or service offered and the cost of providing it. The basic determinants of demand are population, price, income, tastes and preferences, cost and availability of substitutes. In addition, there is normally a period of several months in the startup period before the firm becomes profitable. Obviously, some new firms never become profitable. Anything that the local organization can do to increase the probability of success will help both the firm and the community.

Retailing firms are generally customer-oriented. Factors such as customer accessibility, established traffic patterns, cultural and ethnic characteristics, parking, etc., are quite important. Wholesaling and manufacturing firms normally serve much broader market areas. They may locate in small towns or rural areas because of long range goals. The area may be centrally located with respect to major customers or suppliers, or it may have a surplus of desirable labor. Likewise, the local community may be a tributary to a region with large market potential. Pell City in St. Clair County, and its relation to Birmingham would provide an example of this situation. In some manufacturing cases, the local community provides access to certain very specific natural resources, such as clay for certain ceramic products. Some manufacturing processes may be quite labor intensive, fuel intensive or transportation intensive. Other manufacturing processes, such as those producing highly perishable products or using retailers requiring very close factory coordination, may be highly market oriented.

Service firms are typically customer-oriented. However, customers for such firms may include households, retailers, manufacturers, farmers, etc. These firms tend to be rather mobile and tend to locate near identifiable groups of customers.

ECONOMIC MARKET AREAS

The relevant market area for a particular type of firm is often quite difficult to estimate. The market for a small consumer goods retailer or service firm, for example, often does not extend beyond a particular neighborhood or part of town. Wholesalers and manufacturers often sell to buyers in several counties or states. It is important to have some understanding of the type and extent of the market in which a firm is competing. This is one area in which large firms typically outperform small ones. Most large firms know a great deal about the nature and extent of their major markets.

Small firms, however, must have some knowledge of their market. Until primary data are developed by the firm's experience and research, some guidelines must be used in order to keep sales risk at manageable levels. One example involves relating location to population. Table 1 shows national averages of population per store for several selected types of retail businesses. Such information should prove helpful in matching a particular type of store with a certain community.

TYPES OF BUSINESS ORGANIZATION

A business firm may be organized as a sole proprietorship, a partnership or a corporation. There are also subclassifications within these groups. Each type of organization has certain advantages and disadvantages, often relating to personal liability and/or federal income taxation. The prospective business person should be strongly urged to seek competent legal and accounting guidance

[1]Sam Crawford, Ruby Schnable, Bruce John, and Jim Nelson, *Creating Jobs Through Retention, Expansion and Creation of Local Firms.* (Lexington: University of Kentucky, Cooperative Extension Service, 1981) pp. 8-10, citing Albert Shapero, *The Role of Entrepreneurship in Economic Development at Less Than the National Level,* Ohio State University, 1979.

Table 1. National Average Number of Inhabitants Per Store for Selected Types of Businesses

Kinds of Business	Average Population per store
Food Stores	Number
Grocery stores	1,073
Meat & fish (seafood) markets	12,555
Candy, nut, and confectionery stores	16,177
Retail bakeries	10,844
Eating, Drinking Places	
Eating places	822
Drinking places (alcoholic beverages)	1,957
General Merchandise	
Variety stores	9,529
General merchandise stores	7,813
Apparel and Accessory Stores	
Women's ready-to-wear stores	5,372
Women's accessory and specialty stores	23,505
Furriers and fur shops	103,187
Men's and boys' clothing and furnishings stores	8,992
Family clothing stores	11,426
Shoe stores	7,755
Furniture, Home Furnishings and Equipment Stores	
Furniture stores	5,376
Home furnishings stores	7,444
Household appliance stores	10,277
Radio, television, and music stores	6,967
Building Materials, Hardware, Garden Supply, and Mobile Home Dealers	
Building materials and supply stores	5,356
Hardware stores	7,895
Retail nurseries, lawn and garden supply stores	25,610
Mobile home dealers	19,915
Motor vehicle dealers—new and used cars	6,417
Motor vehicle dealers—used cars only	6,551
Auto and home supply stores	5,551
Gasoline/service stations	920
Miscellaneous	
Used merchandise stores	6,243
Bookstores	26,594
Drugstores	4,040
Florists	8,512
Fuel and ice dealers	10,456
Gift, novelty and souvenir shops	8,448
Cigar stores and stands	46,668
Liquor stores	4,959
Stationery stores	32,405
Jewelry stores	8,225
Camera and photographic supply stores	43,903
Hobby, toy, and game shops	19,877
Sporting goods stores	9,240
Luggage and leather goods stores	115,045
Sewing, needlework, and piece goods stores	10,525

Source: Walter Szkita, ed. *How To Be Your Own Boss: The Complete Handbook for Starting and Running a Small Business* (New York: New American Library, 1979), pp. 38-39.

before choosing a form of organization or making many other basic decisions. Based on its collective knowledge and experience, the small business development group can help the prospect over many of these pitfalls by making timely suggestions and emphasizing areas where professional advice is needed.

Sole Proprietorship. A sole proprietorship is the simplest type of business organization and is the prevalent form seen in farming and small commercial firms. The owner has complete control of management, reaps the profits, and sustains the losses. Profits are taxed as income to the owner. Major problems include unlimited liability and often limited funds for operation and investment.

Partnership. For Alabama and other states that have adopted the Uniform Partnership Act, a partnership is "an association of two or more persons to carry on as co-owners, a business for profit." A partnership must have at least two people but there is no legal maximum. In a general partnership, unless the partnership agreement states otherwise, each partner has a voice in management, and a majority vote governs. In case of a tie vote among an even number of partners, other criteria such as their relative contributions to the business can be used to resolve the issue. Furthermore, any partner, as an agent of the partnership, can commit the organization to a contract within the normal scope of business.

Some businesses may become partnerships without realizing it. The basic criterion for a partnership is whether the partners have agreed to share net income or not. If so, that is evidence of a partnership. Likewise, people presenting themselves to the public as partners will be considered a partnership in a court of law.

One of the greatest disadvantages of a partnership is the unlimited liability of partners. If partnership creditors cannot be satisfied from the assets of the partnership, they can reach the personal assets of partners. Often when partnership creditors seize assets of individual partners, the stage is set for a confrontation between the partnership's creditors and the individuals' creditors. This may have undesirable consequences for all concerned.

Perhaps the most striking difference, other than member liability, between corporation and partnership is that partnerships are less stable. If the relationship is based upon a formal document, the term of partnership existence can be established in the agreement. But even though a stated term of existence is specified, courts will generally

not force a partnership to continue against the will of a partner wanting to withdraw. In addition, a partnership is dissolved upon death or departure of a partner, admission of a new partner, bankruptcy of a partner, or by express will of all partners or of any partner when no definite term is specified in the agreement. Thus, the partnership may be dissolved just when it is needed most, when the strains on the organization and pressures for its termination are the greatest.

The dissolution of the partnership is a technical fracturing of the organizational structure and does not necessarily signal liquidation of assets. Upon dissolution, the parties may: (1) liquidate the partnership; (2) form a new partnership and continue the business; or (3) continue the business under a different organizational form, such as a corporation.

CORPORATION. The corporation is unique because it is separate and distinct from those who own it, manage it, and work for it. It is this separate entity status that assures limited liability for the shareholders.

Each state has its own laws of incorporation. In most states, a corporation can be organized either for a specified term of years or in perpetuity. If organized with perpetual life, the corporation need never die, but procedures do exist to dissolve it by action of the shareholders or board of directors. A corporation can enter into contracts, sue and be sued, and own real and personal property. In short, a corporation derives its powers from the state of incorporation. However, it may not have the right to do business in other states. This is one significant distinguishing feature of the corporation. To "do business" in another state, the corporation must be recognized there as a foreign corporation.

A corporation's powers are granted by the state when "Articles of Incorporation," the basic governing document, are approved by the state. The articles become a matter of public record. However, by-laws containing the internal governing rules are not filed publicly.

Perhaps the best known characteristic of the corporation is its limited liability. This means that corporate obligations can be paid only out of corporate assets and not from assets of individual shareholders kept outside the corporation.

Corporate limited liability shields against two types of claims:

1. Torts[*] such as accidents in which negligence is involved;

2. Contract liability which might involve borrowed money, land bought on contract, problems in the futures market, or other contractual obligations.

To have limited liability, a corporation must meet three tests: (1) it must be properly organized, (2) it must contain a reasonable amount of equity capital to absorb the obligations of the business, and (3) it must be managed with appropriate respect for corporate formalities such as electing directors and officers, keeping minutes, maintaining separate financial records, and filing the required annual report. A short listing of general advantages and disadvantages follows:

A. Advantages:

1. In some instances, the corporate form may simplify internal accounting and help to avoid disagreements over dividing up the annual income from the business. This is a common and difficult problem in many family businesses.

2. With respect to planning, the corporation helps to smooth out the family life cycle and make possible an orderly transfer of the business as an economic entity over time.

3. The corporation, with proper planning, encourages absentee owners to leave their capital in the business.

4. The corporation, with emphasis on planned ownership and continuity of management, may be able to avoid the problems of short-term planning typically associated with older decision-makers. If younger shareholders can be gradually moved into responsible decision-making positions, it helps to offset the reduced planning horizons of older shareholders.

B. Disadvantages:

1. The initial cost of incorporating is generally substantial. It can easily run from $800 to $1,500 or more. However, most of the costs are deductible for income tax purposes over the first five years of corporate life.

2. There may be some feeling of loss of personal control with incorporation. In other words, employee status for those who may formerly have been self-employed owners, such as partners or sole proprietors, may contribute to personal unhappiness.

3. There is more paperwork with corporations. This includes preparing an additional tax return and keeping minutes of meetings. The corporation also must hold at least one meeting of the

[*]Torts are private injuries or wrongs which arise from a breach of a duty created by law, whereas crimes involve public offenses.

shareholders each year and prepare an annual report. The annual report usually doesn't take much time because the state agency normally sends out blank forms to be completed. The corporation also must pay an annual fee, which varies from state to state.

The Local Development Organization and Small Business

The local industrial development organization can provide a framework for helping small local firms just as it does for outside industrial prospects. However, to best serve both types of clients, there should be a division of responsibilities. Many problems and relationships will be the same in both cases, but others will differ. This suggests a need for specialization within the industrial development organization.

The traditional industrial development committee should continue to serve large local firms and major prospects. A new subcommittee should be formed to work with small existing firms and local people interested in starting new businesses. By so doing, the committee will be able to better serve the needs of both groups. The new subcommittee should be specifically charged to help promote local development and balanced growth by aiding small firms and persons who desire to go into business.

Resources available to the small business committee should include files of current industrial and commercial firms in the community, their types of activity, names of top management, and date and results of the last contact by the committee. This information will help the committee build a long term relationship with the business community. The committee should also establish a relation with one of the Small Business Development Centers in Alabama, located at Alabama A&M University, Alabama State University, Auburn University, Jacksonville State University, Troy State University, Tuskegee Institute, University of Alabama, University of Alabama at Birmingham, University of Alabama in Huntsville, University of North Alabama, and University of South Alabama. These centers provide continuing education and special programs of interest to small businessmen.

SIZE AND COMPOSITION OF THE SMALL BUSINESS COMMITTEE

How large should the small business committee be, and who should be involved? It is very difficult to give advice that would be suitable for all communities and situations. However, some guidelines can be established. The overall size should be five to seven people in most situations, large enough to provide the necessary manpower and expertise but small enough to work efficiently. Very small communities may be able to get by with three or four people, while larger and more dynamic communities may require more. The group should include both men and women and all major ethnic groups in the community. If a successful, independent local businessman is willing to serve, his firsthand knowledge would be invaluable. Likewise, if the community has a college or trade school that teaches a course in small business management, the right professors could bring current academic thinking to the group.

Someone with experience in financing small business would also be an invaluable addition. Next to business organization, financial considerations are the bane of small firms. A business loan officer from a local bank would be a logical choice to fill this slot.

A local lawyer or accountant would prove useful in providing general help with problems relating to business organization, tax implications, etc. Such a person can also recognize the potential for future problems and suggest the need for specific counsel in these areas.

Finally, a person from local government with knowledge of local codes, land-use regulations and required permits could prove quite helpful in guiding the small firm through the regulatory maze.

One of the committee members should be given the responsibility of liaison with the local legislative delegation, U.S. congressmen, the Small Business Administration, etc., to keep abreast of legislative developments and programs with implications for small business.

ESTABLISHING AND MAINTAINING COMMUNICATION

A basic problem faced by any new small business development committee involves making its existence known to local citizens with need for its services. Many potential small business owners and managers may currently be outside of the present business community. For the committee to function properly and make its maximum contribution, these potential businessmen must be reached where they are and be made aware of how the committee can help them.

Persons suggested for possible committee membership would probably include members of several local civic clubs. These persons should make talks to their own clubs and visit other clubs who are not represented. Likewise, local school principals, vocational education teachers and church ministers should be made aware of the program and what it can offer. These people are often quite influential in the community and may be able to communicate with segments of the population which could not be easily reached otherwise.

Articles in the local newspaper or radio spots will also help with potential clients. An initial small business development seminar involving local business people and many of the other organizations mentioned in this publication is a good starting point in focusing attention on small business development in general and the small business development committee in particular. Seminars on a periodic basis can also help to keep interest high. All available means of education and publicity should be used. Such communication and education of people are never-ending processes.

The group should meet monthly, probably in conjunction with the local RD committee, local Chamber of Commerce, or other umbrella group meetings and communicate its work to the larger group. This is necessary both to facilitate the small business development committee's work and to coordinate it with other development activity in the community. Reporters often attend RD committee meetings and may provide additional media exposure for the small business development group. However, provision for closed meetings, as needed, should be included at the outset to enable the group to better deal with sensitive issues.

Once a request for assistance has been received, it should be handled promptly, courteously, and with a genuine concern for the people involved. Lines of communication should be kept open so long as the project is active. Furthermore, even after a project has been terminated, several follow-up contacts should be made to deal with possible new developments and for public relations purposes.

In general, the work of the small business development committee can be divided into two types: work with people interested in going into business and work with people currently operating a business. Work with these two groups will have many similarities, but it may also have important differences.

WORKING WITH PEOPLE WHO WANT TO GO INTO BUSINESS

Perhaps the most important characteristic of people in this category is the lack of a track record in the enterprise under consideration. This makes such activity rather speculative by definition. A logical starting point in working with such people involves determining if they have an aptitude for business and some financial resources which might be applied to the investment requirements.

There are no fool-proof ways to predict success ahead of time, but the U.S. Small Business Administration (SBA) has published a checklist which provides a useful way of organizing one's thoughts on the subject. This checklist is reproduced as Appendix A. Additional copies may be obtained by contacting the SBA office in Birmingham. The outcome of the counseling associated with the checklist will determine the next step in working with the people.

The second step involves estimating the demand and resource requirements for the type of business being considered. Situations vary, and there is no "cookbook" procedure for doing this. Several strategic variables are discussed below. This is where committee members with small business or business education experience can prove their worth. Appendix B is a list of basic questions for evaluating potential for success.

A major role of the small business committee involves counseling and helping to plan operations. It is possible that the committee will become involved in putting together a "financial package" for a new firm, but this is quite rare. The Small Business Administration and the Small Business Development Centers can be most helpful in the areas of counseling and planning. By using outside resources such as these, the local committee can become more of a coordinator and accomplish much more than it could by relying entirely on its own resources.

By adequately performing the counseling and facilitating role, the committee will get to know the individual involved and may subsequently be able to influence him for the betterment of the community. Likewise, the counseling should help the prospective small business's chances for success, and successful firms help to make strong communities.

WORKING WITH ESTABLISHED FIRMS

By virtue of their existence for a period of time, managers of established firms have gained experience and sophistication and have a performance track record. An exception may occur when

an existing firm has been bought by a new owner.

Ideally, a representative of the small business development group should contact small firms at least twice a year to discuss their operations. This discussion should emphasize the firm's successes and problems of the past year and its outlook for the upcoming year. The representative should emphasize that the group's services are available to the firm and be watchful for ways to help. Many small businesses are quite dynamic and can change locations, ownership or cease to operate without the development committee or the public at large even realizing it.

While some work of a general nature may occur with existing firms, most such work will probably be related to specific problems. A detailed listing of such problems is beyond the scope of this publication. However, several common categories of problems are discussed below.

Small firms often encounter problems with local government, such as inadequate police or fire protection, water pressure, pot holes in streets, regulatory problems, etc. By acting as an interested mediator, the small business development committee can help keep channels of communication open, facilitate solutions, or help the small firm manager understand why a solution to a particular problem cannot be achieved at this time. This activity should have long term economic and public relations benefits for the community and the firm.

Suppose that the firm desires to make capital improvements, expand its facilities or move to a new location. If the relevant decisions have not already been made, the committee might be able to provide help by suggesting possible sources of financing, helping to locate and prescreen sites or buildings or by acting as an intermediary between the firm and the RD committee or with outsiders.

Suppose the firm is having problems with its neighbors over such things as land-use, noise, dust, etc. It might be possible for the committee to help resolve the situation through interested mediation or through support of appropriate local governmental action.

The underlying philosophy of the committee working with small firms is much the same as for the traditional work with large firms. If the firm can earn a satisfactory profit without too many frustrations in the community, the chances are that it will prosper and remain in the community. It is also true that many of the major corporations of today were once small businesses.

Appendix A.
CHECKLIST FOR GOING INTO BUSINESS[1]

You want to own and manage your own business. It's a good idea provided you know what it takes and have what it takes. Starting a business is risky at best. But your chances of making it go will be better if you understand the problems you'll meet and work out as many of them as you can before you start.

Here are some questions to help you think through what you need to know and do. Check each question Yes or No. Where the answer is no, you have some work to do.

---

[1]U. S. Small Business Administration, *Checklist for Going Into Business*, Small Marketers Aids, No. 71. (Washington: Small Business Administration, Revised, 1977).

ITEMS	YES	NO	COMMENTS
BEFORE YOU START			
A. *Analyze yourself.*			
1. Are you the kind of person who can get a business started and make it go? (Before you answer this question, use Worksheet No. 1 at the end of this questionnaire.)			
2. Think about why you want to own your own business. Do you want to badly enough to work long hours without knowing how much money you'll end up with?			
3. Have you worked in a business like the one you want to start?			
4. Have you worked for someone else as a foreman or manager?			
5. Have you had any business training in school?			
6. Have you saved any money?			
B. *Analyze your finances.*			
1. Do you know how much money you will need to get your business started? (Use Worksheets 2 and 3 at the end of this questionnaire.)			
2. Have you counted up how much money of your own you can put into the business?			
3. Do you know how much credit you can get from your suppliers, the people you will buy from?			
4. Do you know where you can borrow the rest of the money you need to start your business?			
5. Have you figured out what net income per year you expect to get from the business? Count your salary and your profit on the money you put into the business.			
6. Can you live on less than this so that you can use some of it to help your business grow?			
7. Have you talked to a banker about your plans?			
C. *How about a partner?*			
1. If you need a partner with money or know-how that you don't have, do you know someone who will fit—someone you can get along with?			

CHECKLIST—Continued

ITEMS	YES	NO	COMMENTS
2. Do you know the good and bad points about going it alone, having a partner and incorporating your business?			
3. Have you talked to a lawyer about it?			
D. *How about customers?*			
1. Do most businesses in your community seem to be doing well?			
2. Have you tried to find out whether firms like the one you want to start are doing well in your community and in the rest of the country?			
3. If you want to open a retail store do you know what kind of people will want to buy what you plan to sell?			
4. Do such people live in the area where you want to open your store?			
5. Is a store like yours needed?			
6. If not, have you thought about opening a different kind of store or going into another neighborhood?			
GETTING STARTED			
A. *Your building.*			
1. Have you found a suitable building for your firm?			
2. Will there be enough room to accommodate growth?			
3. Will the building meet your specifications at reasonable cost?			
4. Is it convenient to parking, bus stops, or customers' homes?			
5. Has an attorney checked the lease and zoning?			
6. Do you know just what equipment and supplies will be needed and their cost?			
7. Can you save money by buying used equipment?			
B. *Your merchandise inventory.*			
1. Have you decided what to sell?			
2. Have you determined your beginning inventory needs?			

CHECKLIST—Continued

ITEMS	YES	NO	COMMENTS
3. Have you compared the prices and credit terms of different suppliers?			
4. Have you found suppliers who will supply your inventory needs at good prices?			
C. *Your records.*			
1. Have you planned a system of records that will keep track of income and expenses?			
2. Have you worked out a system to control inventories?			
3. Do you know how to record your payroll, purchases, payments and keep tax records?			
4. Do you know what financial statements to prepare?			
5. Do you know how to use these financial statements?			
6. Do you know an accountant who will help you with your records and financial statements?			
7. Have you had any bookkeeping training or experience?			
D. *Your store and the law.*			
1. Do you know what licenses and permits will be needed?			
2. Do you know what business laws you have to obey?			
3. Do you know a lawyer you can go to for advice and for help with legal papers?			
E. *Protecting your firm.*			
1. Have plans been made for protecting your firm against thefts of all kinds—shoplifting, robbery, burglary, employee stealing?			
2. Have you talked with an insurance agent about what kinds of insurance you need?			
F. *Buying a business someone else has started.*			
1. Have you made a list of what you like and don't like about buying a business someone else has started?			
2. Are you sure you know the real reason why the owner wants to sell his business?			
3. Have you compared the cost of buying the business with the cost of starting a new business?			

CHECKLIST—Continued

ITEMS	YES	NO	COMMENTS
4. Are the equipment and inventory up to date and in good condition?	.....	.....	.....
5. Is the building in good condition?	.....	.....	.....
6. Will the owner of the building transfer the lease to you?	.....	.....	.....
7. Have you talked with other businessmen in the area to see what they think of the business?	.....	.....	.....
8. Have you talked with the company's suppliers?	.....	.....	.....
9. Have you talked with a lawyer about it?	.....	.....	.....

MAKING IT GO

A. *Advertising.*

1. Have you decided how you will advertise? (Newspapers—posters—handbills—radio—by mail.)	.....	.....	.....
2. Do you know where to get help with your ads?	.....	.....	.....
3. Have you watched what other stores do to get people to buy?	.....	.....	.....

B. *The prices you charge.*

1. Do you know how to figure what you should charge for each item you sell?	.....	.....	.....
2. Do you know what other stores like yours charge?	.....	.....	.....

C. *Buying.*

1. Do you have a plan for finding out what your customers want?	.....	.....	.....
2. Will your plan for keeping track of your inventory tell you when it is time to order more and how much to order?	.....	.....	.....
3. Do you plan to buy most of your stock from a few suppliers rather than a little from many, so that those you buy from will want to help you succeed?	.....	.....	.....

D. *Selling.*

1. Have you decided whether you will have salesclerks or self-service?	.....	.....	.....
2. Do you know how to get customers to buy?	.....	.....	.....

CHECKLIST—Continued

ITEMS	YES	NO	COMMENTS
3. Have you thought about why you like to buy from some salesmen while others turn you off?	.....	.....	.....
E. *Your employees.*			
1. Will this be a family run business?	.....	.....	.....
2. If not, how many outsiders will be employed?	.....	.....	.....
3. If you need to hire someone to help you, do you know where to look?	.....	.....	.....
4. Are you familiar with current labor laws and regulations as they will affect your firm?	.....	.....	.....
5. Do you know what kind of employees you need?	.....	.....	.....
6. Do you know current wage rates?	.....	.....	.....
7. Do you have a plan for training your employees?	.....	.....	.....
F. *Credit for your customers.*			
1. Have you decided whether to let your customers buy on credit?	.....	.....	.....
2. Do you know the good and bad points about joining a credit-card plan?	.....	.....	.....
3. Can you tell a deadbeat from a good credit customer?	.....	.....	.....

A FEW QUESTIONS

A. Have you figured out whether you could make more money working for someone else?	.....	.....	.....
B. Does your family go along with your plan to start a business of your own?	.....	.....	.....
C. Do you know where to find out about new ideas and new products?	.....	.....	.....
D. Do you have a work plan for yourself and your employees?	.....	.....	.....
E. Have you gone to the nearest Small Business Administration office for help with your plans?	.....	.....	.....

WORKSHEET NUMBER 1: PERSONAL CHARACTERISTICS

ITEMS[1]	CHECK	COMMENTS
A. *Are you a self-starter?*		
1. I do things on my own. Nobody has to tell me to get going.	.....	.....
2. If someone gets me started, I keep going all right.	.....	.....
3. Easy does it. I don't put myself out until I have to.	.....	.....
B. *How do you feel about other people?*		
1. I like people. I can get along with just about anybody.	.....	.....
2. I don't need anyone else.	.....	.....
3. Most people irritate me.	.....	.....
C. *Can you lead others?*		
1. I can get most people to go along when I start something.	.....	.....
2. I can give the orders if someone tells me what we should do.	.....	.....
3. I let someone else get things moving. Then I go along if I feel like it.	.....	.....
D. *Can you take responsibility?*		
1. I like to take charge of things and see them through.	.....	.....
2. I'll take over if I have to, but I'd rather let someone else be responsible.	.....	.....
3. There's always some eager beaver around wanting to show how smart he is. I say let him.	.....	.....
E. *How good an organizer are you?*		
1. I like to have a plan before I start. I'm usually the one to get things lined up when the group wants to do something.	.....	.....
2. I do all right unless things get too confused. Then I quit.	.....	.....
3. You get all set and then someone comes along and presents too many problems. So I just take things as they come.	.....	.....
F. *How good a worker are you?*		
1. I can keep going as long as I need to. I don't mind working hard for something I want.	.....	.....

[1]For each question (A, B, C, . . . J), check the answer that most nearly describes you. Be honest with yourself.

WORKSHEET NO. 1–Continued

ITEMS	CHECK	COMMENTS
2. I'll work hard for a while but when I've had enough, that's it.		
3. I can't see that hard work gets you anywhere.		
G. *Can you make decisions?*		
1. I can make up my mind in a hurry if I have to. It usually turns out O.K., too.		
2. I can if I have plenty of time. If I have to make up my mind fast, I think later I should have decided the other way.		
3. I don't like to be the one who has to decide things.		
H. *Can people trust what you say?*		
1. You bet they can. I don't say things I don't mean.		
2. I try to be on the level most of the time, but sometimes I just say what's easiest.		
3. Why bother if the other fellow doesn't know the difference?		
I. *Can you stick with it?*		
1. If I make up my mind to do something, I don't let anything stop me.		
2. I usually finish what I start–if all goes well.		
3. If it doesn't go right away, I quit. Why beat your brains out?		
J. *How good is your health?*		
1. I never run down.		
2. I have enough energy for most things I want to do.		
3. I run out of energy sooner than most of my friends seem to.		
K. *Now count the checks you made.*		NUMBER
1. How many are there beside the first answer to each question?		
2. How many are there beside the second answer to each question?		
3. How many are there beside the third answer to each question?		

If most of your checks are beside the first answers, you probably have what it takes to run a business. If not, you're likely to have more trouble than you can handle by yourself. Better find a partner who is strong on the points you're weak on. If many checks are beside the third answer, not even a good partner will be able to shore you up. Now go back and answer the first question in the questionnaire.

WORKSHEET NO. 2—FINANCIAL ASPECTS

ESTIMATED MONTHLY EXPENSES ITEM	Your estimate of monthly expenses based on sales of $..... per year	Your estimate of how much cash you need to start your business. (See column 3.)	What to put in column 2 (These figures are typical for one kind of business. You will have to decide how many months to allow for in your business.)
	Column 1	Column 2	Column 3
Salary of owner-manager	$	$	2 times column 1
All other salaries and wages			3 times column 1
Rent			3 times column 1
Advertising			3 times column 1
Delivery expense			3 times column 1
Supplies			3 times column 1
Telephone and telegraph			3 times column 1
Other utilities			3 times column 1
Insurance			Payment required by insurance company.
Taxes, including Social Security			4 times column 1
Interest			3 times column 1
Maintenance			3 times column 1
Legal and other professional fees			3 times column 1
Miscellaneous			3 times column 1
STARTING COSTS YOU ONLY HAVE TO PAY ONCE			leave column 1 blank
Fixtures and equipment			Fill in worksheet 3 and put the total here.
Decorating and remodeling			Talk it over with a contractor.
Installation of fixtures and equipment			Talk to suppliers from whom you buy these.
Starting inventory			Suppliers will probably help you estimate this.
Deposits with public utilities			Find out from utilities companies.
Legal and other professional fees			Lawyer, accountant and so on.
Licenses and permits			Find out from city offices what you have to have.
Advertising and promotion for opening			Estimate what you'll use.
Accounts receivable			What you need to buy more stock until credit customers pay.
Cash			For unexpected expenses or losses, special purchases, etc.

WORKSHEET NO. 3

LIST OF FURNITURE, FIXTURES, AND EQUIPMENT

Leave out or add items to suit your business. Use separate sheets to list exactly what you need for each of the items below.	If you plan to pay cash in full, enter the full amount below and in the last column.	If you are going to pay by installments, fill out the columns below. Enter in the last column your down payment plus at least one installment.			Estimate of the cash you need for furniture, fixtures, and equipment.
		Price	Down payment	Amount of each installment	
Counters	$	$	$	$	$
Storage shelves, cabinets					
Display stands, shelves, tables					
Cash register					
Safe					
Window display fixtures					
Special lighting					
Outside sign					
Delivery equipment if needed					
Other:					
TOTAL FURNITURE, FIXTURES, AND EQUIPMENT (Enter this figure also in worksheet 2 under "Starting Costs You Only Have To Pay Once.")					$

Appendix B.
ARE YOU READY TO START A BUSINESS?

1. Is there a market for the product or service that you plan to offer?

   A. Is the target market local or regional?

      (1) If regional, have you had any experience in regional marketing and distribution systems?

      (2) If local, what kinds of people will use the product or service (men, women, other firms, etc.)?

   B. How large does the potential market appear to be?

      (1) How many people or firms appear to be in the market?

      (2) If the customers now use the product or service, where do they get it? (This is your competition.)

      (3) Why do you think you can serve a segment of this market better or cheaper than it is now being served?

2. Where would you locate your firm?

   A. What type of location would best serve your market?

   B. Are there any supply side considerations which should be taken into account? (ex. clay for pottery, bulky or heavy items which must be shipped in, etc.)

   C. Do you know of or have access to an *adequate* building at or near the optimum location?

   D. Is your proposed location compatible with your neighbors and land-use regulations?

3. What would it cost you to open the business? (in other words, what would your estimated opening day balance sheet look like?)

   A. What assets would be required?

      (1) building cost (lease, rent or purchase)

      (2) cash on hand to operate

      (3) fixtures/equipment

      (4) insurance

      (5) inventory, if any

      (6) other assets (vehicles, etc.)

   B. How much cash could you personally supply?

      (1) Analyze current family resources and obligations.

      (2) How much of your personal resources would you be willing to invest in the business?

   C. The difference between A and B above provides an estimate of the initial borrowing which will be required to start the business.

4. Has thought been given to provision of sufficient operating capital to meet business and family requirements until the firm has a chance to become profitable?

   A. More firms fail due to cash flow deficiencies than from inadequate overall financing.

   B. Will all family income over the first couple of years of operation depend on the new business or do other family members have income-producing jobs independent of the business?

      (1) If other family members are employed, what percent of total family income are they now earning?

      (2) What percent of basic family budget for the next year can be met from sources other than the business?

   C. Have you attempted to make a cash flow budget for the business on a monthly basis for the first year, using your most realistic estimates of sales and costs?

D. Have you attempted to prepare estimated income statements for the first two years of operation?

(1) The estimated opening day balance sheet, cash flow budget and estimated income statements will be basic documents when you apply for a loan.

(2) The committee members with backgrounds in small business, banking and teaching business management can provide very helpful advice at this stage.

E. Do you know what sources of external financing are open to you and their advantages and disadvantages at least in a general sense?

(1) The banker, small businessman, and educator should be able to help at this stage.

(2) Other possible sources of information include:

(a) other local banks

(b) the business schools at major state universities

(c) the Alabama Development Office

(d) The U.S. Small Business Administration

(e) Economic Development Administration.

5. Do you know the advantages and disadvantages of different forms of business organization and how they would affect your particular situation?

6. Do you know your initial labor requirements and have you projected them for at least one year?

7. Do you have tentative policies in the following?

A. Extension of Credit

(1) no credit

(2) major cards only

(3) open account and/or other independent extension (promissory notes, etc.)

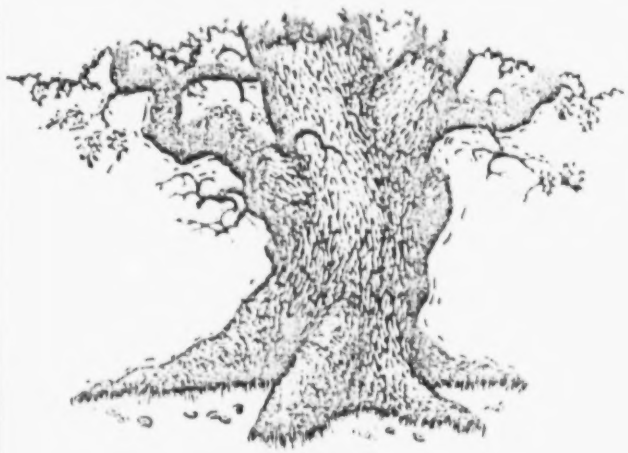
B. wages and fringe benefits

C. business days and hours

D. advertising

If you have answered all these questions carefully, you've done some hard work and serious thinking. That's good. By now you have probably found some things you still need to know more about or do something about.

Do all you can for yourself, but don't hesitate to ask for help from people who can tell you what you need to know. Remember, running a business takes guts. You've got to be able to decide what you need and then go after it. Good Luck!



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